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TAGS: EFIN EINV PTER RS IR

SUBJECT: RUSSIA CBR DEPUTY DISCUSSES IRAN, FINANCIAL
LEGISILATION, AND REGULATORY DEVELOPMENTS

REF: A. MOSCOW 2889

1B. MOSCOW 228

1C. MOSCOW 79

Classified By: EconMinCouns Matthias Mitman for reasons 1.4(b) and (d).

1.(C) Summary: Central Bank Deputy Chairman Melnikov briefed us on plans to lead a banking delegation to Iran, increased cooperation with Russia's markets regulator, new anti-money laundering legislation, CBR's financial transaction remote monitoring system, and potential "soft measures" against speculative capital. EconMinCouns expressed concerns with pending National Payment System legislation that would hurt both American credit card companies and the GOR's ambitions to make Moscow an international financial center. End Summary.

Bankers' Trip to Iran Postponed

2.(C) On February 11, EconMinCouns met with Central Bank of Russia (CBR) Deputy Chairman Viktor Melnikov, who heads CBR departments on anti-money laundering (AML) and capital controls. EconMinCouns asked Melnikov about press reports that that a delegation from state-owned banks, led by Melnikov, was to travel to Iran in order to "resolve banking issues and facilitate exchange and economic and trade activities between the two countries." Melnikov said that the trip had been prepared by Chamber of Trade and Commerce President (and ex-PM) Yevgeny Primakov, but that the trip had been delayed. While not directly explaining the purpose of the trip, Melnikov said that the clearing of foreign trade transactions in local currencies was a "live subject" for the GOR. Local currency clearing was already happening with China, he said, and the GOR was in discussions with India and Turkey as well. The impetus was to reduce currency risk in foreign trade because of the volatility of the euro and dollar, to which the ruble is loosely pegged. Melnikov opined that authorities such as the CBR should create a framework and mechanisms for local currency clearing. Then merchants should decide for themselves how to reduce their currency risk, whether that means hedging, dollars, or local currency clearing. He noted that about 30% of trade with CIS countries is done in rubles.

3.(C) Melnikov said that he had the responsibility at the Central Bank for ensuring economic sanctions are implemented. He follows this issue very closely and takes his responsibility seriously, he stressed. He added that he was not aware of any Russian banks breaking existing financial

sanctions against Iran.

CBR Increasing Cooperation with Markets Regulator

4.(C) Russian daily *Kommersant* reported in late January that the head of the Federal Service for Financial Monitoring (FSFM -- the markets regulator) Vladimir Milovidov had met with PM Putin to inform him that the FSFM, with help from the CBR, revoked the licenses of about 30 professional securities markets participants for AML violations. Melnikov laughingly said that *Kommersant* did not know the full story, adding, "the meeting (between Milovidov and Putin) did not happen by chance." He explained that the CBR had detected AML violations among market participants and brokers and had notified the FSFM, which then investigated and revoked the licenses.

5.(C) Melnikov told us that cooperation between the FSFM and the CBR, not normally very strong, had intensified in the last two or three months. To strengthen this further, the FSFM and CBR are preparing an MOU to make the sharing of information automatic between the two regulators. Finally, Melnikov said that the CBR supports the FSFM's desire to sign an MOU with the US Securities and Exchange Commission, as reported ref A. (Note: Post requested EUR/RUS check with the SEC about the possibility of an MOU with the FSFM.)

AML/CT Legislation to Clarify "Beneficial Owners"

6.(C) One hole in the GOR's AML legislation, according to a 2009 report from the Eurasian Group on combating money

MOSCOW 00000342 002 OF 002

laundering and financing of terrorism (EAG), is that the term "beneficial owner" (i.e. the person on whose behalf a transaction is conducted) is not clearly defined. Bank chief compliance officers have told us that as a result smaller banks in particular do not properly look into who the beneficial owner is in financial transactions. CBR Deputy Department Director Ilya Yasinsky explained the GOR's efforts to rectify this problem, starting with the 2004 AML/CT amendment that elucidated the "who benefits from the transaction" aspect of beneficial owner. The second aspect, which he called "the real owner," has been addressed in a new law written with CBR participation. This law was presented to the Duma and so far has passed its first reading. According to Yasinsky, once this law passes, the "beneficial owner" concept will be legally defined in accordance with FATF recommendations.

CBR's Remote Monitoring System

7.(C) Melnikov expressed pride in Remote Monitoring System for financial transactions that the CBR developed. He said that the system monitors all kinds of domestic financial transactions, including 3 million per day in Moscow alone. The system looks at 15 characteristics of transactions, and when seven or eight criteria are met and the system raises a flag, the CBR does an unscheduled inspection of the financial institution in question. Melnikov further elaborated that money-laundering schemes in Russia had been changing every couple of months and now change every half year, but they have the same components arranged differently. Red flags include when a lot of money is going through an account held by a company with negligible capital and almost no employees, or a so-called "transit account" in which 80% of the money immediately leaves after being deposited. He claimed that U.S. regulators rely too heavily on what companies' chief compliance officers report, a mistake that the CBR is not making. Melnikov offered to share CBR's remote monitoring software with other countries, saying that countries with large economies would especially benefit.

Speculative Capital

8.(C) Finance Minister Kudrin among others has said that

"soft measures" might be imposed to limit the inflow of speculative capital. EconMinCouns asked about the kinds of measures the CBR had under consideration. Melnikov stated that if the G20 recommended a Tobin Tax (i.e. a tax on foreign currency exchanges), Russia would probably join this initiative. He said that in 2008, the foreign debt of Russia's private companies peaked at too high a level, and that situation should not be allowed to repeat. However, he added that CBR First Deputy Chairman Ulyukaev had the lead on monetary policy, while Melnikov himself was involved in implementation and played no policy role.

National Payment System

9.(C) EconMinCouns expressed concerns with the draft legislation on the National Payment System, noting that cutting off Russia from the international payment card infrastructure would hurt average Russians and hamper GOR efforts to make Moscow an international financial center (refs B and C). Melnikov said he understood that the banning of offshore payment transaction processing was an issue. While Russia's national interests take precedence, he predicted that "some sort" of compromise would eventually be found. (Note: President Medvedev's deadline for this legislation to go through the GOR's interagency process and be submitted to the government has been extended to April 1.)
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